

Message Text

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ACTION AF-18

INFO OCT-01 EUR-25 ADP-00 TRSE-00 AID-20 IGA-02 AGR-20

EB-11 CIAE-00 INR-10 NSAE-00 RSC-01 L-03 RSR-01 OMB-01

CIEP-02 /115 W

----- 129744

P R 051025 Z JUL 73

FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC PRIORITY 6764

INFO AMEMBASSY PARIS

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PARIS FOR US DEL IBRD CG SUDAN

E. O. 11652: N/ A

TAGS: EAID, EFIN, SU

SUBJ: IBRD CG MEETING: STATUS OF IMF DISCUSSIONS WITH GOS

REF: STATE 129500

1. SUMMARY: IMF OPTIMISTIC NEW STANDBY AGREEMENT WITH SUDAN CAN BE ACHIEVED IN NEAR FUTURE. DIFFERENCE STILL EXISTS, HOWEVER, OVER LEVEL INTERNAL BORROWING THAT WILL BE TOLERATED. POSSIBILITY THAT FUND MAY INSIST ON EXTERNAL DEBT CEILING COULD ALSO CAUSE DIFFICULTY. FUND AWAITING SIGNAL FROM GOS AND IS PREPARED CONTINUE DISCUSSION IN PARIS. END SUMMARY.

2. FOLLOWING IS STATUS OF IMF DISCUSSIONS WITH GOS CONCERNING POSSIBILITY RENEWED STANDBY ARRANGEMENT BASED ON OUR CONVERSATION WITH DEPARTING MISSION AND RESIDENT IMF REP.

3. GENERAL OPTIMISM: IN GENERAL, FUND HOPEFUL ARRANGEMENT CAN BE CONCLUDED POSSIBLY DURING PARIS CG MEETING. FUND BELIEVES, AND WE CONCUR, GOS WANTS AGREEMENT AND THAT IT ATTACHES CONSIDERABLE IMPORT TO POSITIVE INTERNATIONAL IMPACT OF RENEWED ARRANGEMENT. THIS BELIEF BASED (A) ON KEY REVENUE MEASURES TAKEN

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BY GOS IN MAY CONSISTENT WITH FUNDS EXTENDED URGINGS; (B) GENERALLY IMPROVED QUALITY OF BUDGET ANNOUNCED LAST WEEK (IMF REP TO CG WILL HAVE DETAILS); AND (C) MAJOR PROGRESS MADE IN DIRECT DISCUSSIONS BETWEEN GOS AND FUND DELEGATION DURING LATTER' S LAST EVENING IN KHARTOUM.

4. LEVEL OF INTERNAL BORROWING: THERE ARE, HOWEVER, STILL ISSUES OF IMPORTANCE TO BE RESOLVED. IMF HAS INSISTED THAT CEILING OF LS 15 MILLION BE PLACED ON INTERNAL BORROWING FOR FY 74 WHILE NEW GOS BUDGET CALLS FOR BORROWING LEVEL OF LS 20 MILLION TO MEET SHORTFALL BETWEEN EXPENDITURES AND REVENUES. PROBLEM LIES WITH DEVELOPMENT BUDGET. FOR PUBLIC IMPACT, PUBLISHED BUDGET CALLS FOR LS 100 MILLION IN DEVELOPMENT EXPENDITURES. IN FACT GOS ONLY PLANNING ON LS 45 MILLION. BUT EVEN THIS FIGURE, WITH ABSENCE OF SURPLUS IN OPERATIONAL BUDGET, CAN ONLY BE MET BY BORROWING AT LEVEL PROPOSED BY GOS. FUND REJECTS THIS MANNER OF BRIDGING GAP AND INSISTS THAT EITHER ADDITIONAL REVENUE MEASURES BE INSTITUTED OR DEVELOPMENT BUDGET BE CUT. IMP REP POINTS OUT THAT GAP WHICH EXISTED AT TIME OF DEPARTURE IMF MISSION ON JUNE 26 HAS WIDENED SLIGHTLY WITH PUBLICATION OF BUDGET AND ATTENDENT MEASURES. SPECIFICALLY, EXPENDITURES HAVE BEEN INCREASED SOME LS 700,000 TO COVER SALARY INCREASES SHIL REVENUES HAVE BEEN REDUCED BY CLOSE TO LS 1 MILLION BY GRANT OF CERTAIN EXEMPTIONS ON EXCISE DUTIES AND INCOME TAXES. THIS IS CLEARLY NOT DIRECTION IN WHICH FUND EXPECTS GOS TO MOVE, BUT ON OTHER HAND THESE MEASURES HAVE NOT WIDENED GAP SUFFICIENTLY TO ERASE GENERAL OPTIMISM. IN EFFECT, FUND ONLY WAITING SIGNAL FROM GOS THAT LATTER DESIRES CONTINUE DISCUSSIONS IN PARIS. IF SUCH SIGNAL RECEIVED, FUND BELIEVES AGREEMENT COULD BE QUICKLY ACHIEVED.

5. POSSIBILITY OF EXTERNAL DEBT CEILING: THERE IS ONE ADDITIONAL POTENTIAL STUMBLING BLOCK TO RENEWAL STANDBY. FUND IS CONCERNED ABOUT LEVEL OF GOS EXTERNAL DEBT, SEEING PARTICULAR PROBLEM OF REPAYMENT IN PERIOD FIVE TO TEN YEARS HENCE. IMF DEL ARGUED STRONGLY FOR GOS ACCEPTANCE OF DEBT CEILING AS PART OF NEW STANDBY, BUT FOUND GOS EQUALLY STRONG OPPOSED. IMF REP POINTED OUT PREVIOUS STANDBY FOR SUDAN WAS ONE OF FEW IN EXISTENCE WITHOUT SUCH CEILING, BUT WHETHER FUND WILL TAKE HARDLINE ON THIS ISSUE IS UNCERTAIN. IF FUND INSISTS ON CEILING, GOS RESPONSE REMAINS BE SEEN.

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6. FOLLOWING DRAFTING FOREGOING, WE HAVE JUST LEARNED THAT GOS HAS NOW OFFICIALLY ASKED FOR CONTINUATION OF IMF DISCUSSIONS IN PARIS JULY 11 AND 12, IMMEDIATELY FOLLOWING CG MEETING. UNDERSEC MIN FIN AND ECON, WHO WILL BE MEMBER GOS DELEGATION TO PARIS, CONFIRMED TO EMBOFF DURING CONVERSATION AT JULY 4 RECEPTION

IMPORTANCE GOS ATTACHES TO NEW STANDBY AND ITS CONFIDENCE IT
CAN BE ACHIEVED. FRITTS

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*** Current Handling Restrictions *** n/a

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 05 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: thigpegh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973KHARTO01504
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: KHARTOUM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730765/aaaajyor.tel
Line Count: 122
Locator: TEXT ON-LINE
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 STATE 129500
Review Action: RELEASED, APPROVED
Review Authority: thigpegh
Review Comment: n/a
Review Content Flags:
Review Date: 20 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Aug-2001 by smithrj>; APPROVED <18-Oct-2001 by thigpegh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 980311
Subject: IBRD CG MEETING; STATUS OF IMF DISCUSSIONS WITH GOS
TAGS: EAID, EFIN, SU, IBRD, IMF
To: STATE INFO PARIS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005